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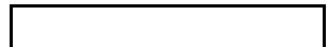
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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN
NON-COMMUNIST UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963**

EIC R14-S15

September 1963

**ECONOMIC INTELLIGENCE COMMITTEE
of the
UNITED STATES INTELLIGENCE BOARD**



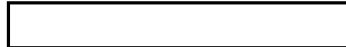
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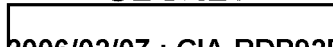
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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 January through 30 June 1963, constitutes the fifteenth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, including representatives of the Department of State; the Defense Intelligence Agency; the Departments of Commerce and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 27 August 1963.

For the purposes of this report, the term underdeveloped areas includes the following countries of the Free World: (1) all countries in Latin America except Cuba; (2) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, and Spain.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN NON-COMMUNIST UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963

Summary*

Current Trends

Sino-Soviet Bloc economic aid activities in underdeveloped countries during the first 6 months of 1963 continued to reflect a more critical appraisal by both lending and recipient countries -- an appraisal in which the Bloc gave evidence of a more realistic assessment of the politicostrategic returns commensurate with the aid resources committed and some underdeveloped countries exhibited a greater appreciation of the limitations of Bloc economic assistance. While both the level and the more selective pattern of new Bloc aid extensions have reflected this changing assessment, both the Bloc and the underdeveloped countries have been reluctant to relinquish a program which has hitherto netted some advantages to both sides.

Sino-Soviet Bloc new economic aid extensions during this 6-month review period totaled \$101 million** -- the smallest Bloc commitment during any comparable period since 1957. Although the only known military aid extended during the first half of 1963 was \$16 million in credits to India, a military agreement of unknown value with Cambodia was concluded in March or April. It is possible that agreements were also concluded with Algeria, the United Arab Republic (UAR), and Indonesia. Deliveries of equipment under previous military aid commitments continued unabated.

It is still not possible to state with confidence, however, the extent to which the lag in new extensions reflects (1) a more cautious and selective approach motivated by the apparent feeling in some Bloc circles that economic aid has not been as effective as had earlier been anticipated in furthering Bloc policy objectives, (2) a decision by the USSR to lessen the burden of its aid program in view of domestic economic stringencies and substantial commitments in Cuba and elsewhere, (3) the large backlog of undrawn credits resulting partly from the inability of recipient countries to implement their part of the program, or (4) more limited opportunities in newly emergent countries for large-scale aid agreements of the kind that the Bloc has hitherto entered into.

* See the chart, Figure 1, following p. 2.

** All data in this report exclude Cuba and Yugoslavia and thus are not comparable to aggregative figures in previous issues of the EIC-R14 series.

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When viewed against (1) some disappointing results of the program in Iraq, Africa, and elsewhere, (2) the simultaneous Bloc commitments in heavy industry, military, space, consumer welfare, and support for less developed Bloc members and Cuba, and (3) bitter Chinese and other Communist denunciations of Khrushchev's coexistence strategy in underdeveloped areas, foreign aid may well have also generated larger political issues within the Bloc than the actual economic costs of the aid program would seem to warrant. Indeed, all these factors probably have contributed to the recent decline in new Bloc aid commitments.

The first half of 1963 was also marked by ambivalent attitudes toward Bloc aid by many of the underdeveloped country recipients. Guinea, Ghana, and Mali, countries on which the Bloc had pinned great hopes for extending its influence in Africa, have been increasingly vocal in expressing their dissatisfaction with the implementation of Bloc aid. Ugly racial incidents involving African students in the USSR, Czechoslovakia, and Bulgaria have also tended to generate hostile, if only transitory, criticism of the Bloc. In Iraq the new regime sought to redress the balance of its Bloc-oriented predecessor by seeking to cancel its contract for Soviet missiles and by canceling two economic aid projects and halting the implementation of three others pending a more thoroughgoing review. In addition, the government has reportedly recalled almost all military personnel undergoing training in the USSR and all Iraqi citizens currently enrolled in Bloc academic institutions. However, by the end of the reporting period very few of the academic students had returned. Afghanistan, Indonesia, and the UAR also have indicated a greater desire to establish closer relations with the West as a means of decreasing their dependence on the Bloc.

In response to such mounting problems and disappointments coincident with the implementation of its aid program -- difficulties not peculiar to Bloc programs alone -- the USSR has sought to adopt a more flexible and pragmatic approach in order to facilitate more rapid implementation of its aid projects. In Guinea, after talks reportedly marked by much mutual recrimination and hard bargaining and during which Guinean grievances over the cost and rate of implementation of Soviet projects and the shortcomings of Soviet technicians were aired along with Soviet frustration over Guinea's delay in providing local labor and materials, the USSR agreed to assume full responsibility for the completion of all Soviet aid projects in Guinea -- a step which Moscow had hitherto been reluctant to take. In Ghana, similar efforts by the USSR to facilitate lagging implementation of its aid projects resulted in a Soviet agreement to allocate \$22 million of previously extended developmental credits for the purchase of Soviet commodities, the proceeds of which are to be used exclusively to

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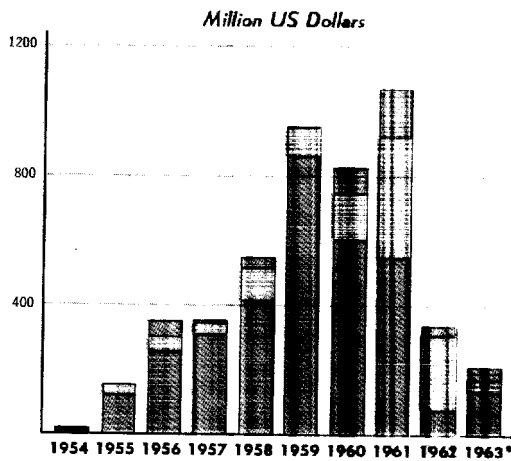
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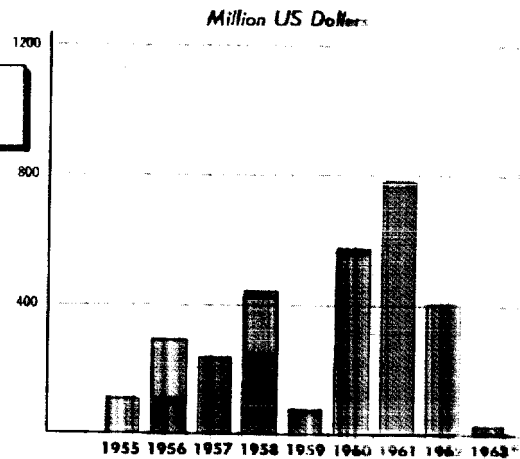
BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS*

Selected Years, 1954 - June 1963

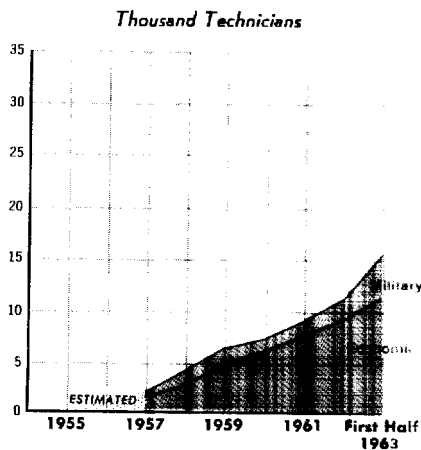
**BLOC ECONOMIC ASSISTANCE TO UNDERDEVELOPED COUNTRIES
1954 - JUNE 1963**



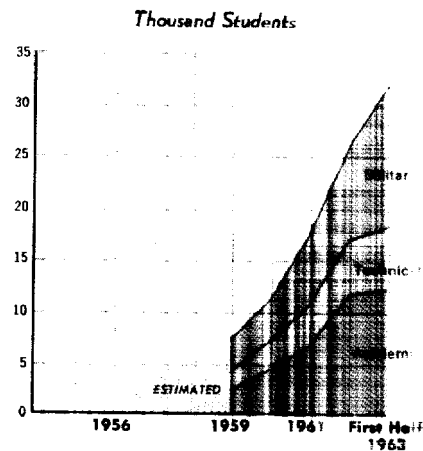
BLOC MILITARY AID TO UNDERDEVELOPED COUNTRIES, 1955 - JUNE 1963**



BLOC ECONOMIC AND MILITARY TECHNICIANS IN UNDERDEVELOPED COUNTRIES, 1955 - JUNE 1963



STUDENTS FROM UNDERDEVELOPED COUNTRIES TRAINED IN THE BLOC, 1956 - JUNE 1963



* Excluding Cuba and Yugoslavia.

* Projected at an annual rate from first 6 months of total.

** Since Bloc Military Assistance for some countries cannot be distributed by year, annual figures are only estimates.

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finance the local currency costs of certain Soviet-assisted projects. In response to Indonesian entreaties, the USSR has reportedly agreed to a substantial reduction of the annual payments on Soviet military loans and to a rescheduling of the payments over a longer period. A similar Indonesian request of Czechoslovakia was, however, rejected.

While the USSR at first seemed eager to salvage what it could of its heavy commitments in Iraq, continued Baghdad repression of Iraqi Communists and an offensive against the Kurdish minority provoked strong Soviet reaction. In an unprecedented threat belying the "disinterested" nature of Soviet aid, Pravda warned that Moscow's patience and its aid funds -- were not inexhaustible. Pravda asserted that the rendering of aid to newly independent states did not mean that the USSR had "money to spare" or that such funds could not be used profitably at home. The USSR, therefore, could not remain indifferent to the objectives on which its aid funds were being spent.

While Bloc aid programs were meeting delays and dissatisfaction in some countries, they were apparently making progress in others. Bloc projects in the UAR, particularly the High Dam, were reportedly moving ahead satisfactorily, and a new economic credit of nearly \$45 million was extended by the USSR during the 6-month period. Construction work was stepped up on Bloc projects in the Somali Republic and Yemen, and the number of Soviet technicians in both countries increased substantially. Work appeared to be moving ahead at a faster pace, too, in India and Afghanistan. The USSR widened its commitments to Cambodia by signing agreements for military aid and for a power dam. Brazil finally ratified a number of large, medium-term credits from the European Satellites extended in 1961 and 1962 for machinery and equipment purchases under bilateral trade agreements.

During the past year, Soviet spokesmen have openly expressed the limited foreign aid potential of the USSR and coupled such statements with demands that underdeveloped countries rely more on their own resources or seek more aid from the West and the UN. Moreover, in contrast to the preeminent role that hitherto has been accorded the Bloc aid program, Moscow, perhaps under the urgings of its European Satellites who rely more than the USSR on foreign trade, has tended to place increased emphasis on trade rather than aid as the more decisive factor in securing and maintaining the "economic independence" of new states. There is no firm evidence, however, that the Soviet leadership has revised any of its fundamental assumptions with respect to its policies in underdeveloped areas. Indeed, under the pressures of Chinese criticisms, Pravda on 7 August, in a major exposition of the USSR's aid program, sought to reassert with increased vigor the true militancy of the Soviet doctrine of coexistence and the implicit connection of its trade and aid program -- with which its prestige seems

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irrevocably committed -- with the wider political objectives of the national liberation movement.

Bloc Economic Assistance

Credits and Grants

Bloc economic aid extensions to underdeveloped countries totaled \$101 million during the first half of 1963, the lowest semiannual aid commitment since 1957. The UAR, Syria, and Cambodia were the major recipients of new Bloc aid, bringing the cumulative total of Bloc economic credits extended since the beginning of the program in 1954 to \$4.7 billion. The USSR contributed almost two-thirds of the total of new aid extended in the first 6 months of 1963; the European Satellites contributed almost 20 percent, and Communist China the remainder. More than two-thirds of total Bloc credits extended during this period went to industry, 12 percent to hydroelectric power development, and approximately 3 percent to agriculture.

Drawings in the first half of 1963 were \$209 million, bringing the total cumulative drawings on economic credits to \$1.5 billion. Dissatisfaction on both sides with the slow progress of many Bloc aid projects has led the USSR to intensify its efforts to accelerate the implementation of credits already extended. Recent instances in Guinea, Ghana, and Afghanistan suggest that even greater emphasis on project implementation may be anticipated in the future.

Technicians and Trainees

Bloc economic technicians employed in underdeveloped countries during the first 6 months of 1963 numbered approximately 11,250, an increase of almost 20 percent over the previous 6-month period. Greater economic aid activity in Algeria, India, Iraq, the Somali Republic, the UAR, and Yemen accounted for about 90 percent of the net increase. Afghanistan, Algeria, Guinea, India, Iraq, the UAR, and Yemen employed almost three-fourths of the total number of Bloc economic technicians. Approximately 15 percent of the total technicians were engaged in medical, education, planning, advisory, and managerial activities not related to economic aid credits -- indicating a significant growth in nonproject technical assistance activities.

During the first 6 months of 1963, approximately 1,400 academic and technical trainees from underdeveloped countries enrolled in Bloc institutions, bringing to approximately 12,000 those who are currently receiving instruction. It is estimated that 18,300 students have undertaken such training since the inception of the Bloc's aid program. Complaints of racial discrimination, political indoctrination, dissatisfaction with academic curricula, and other grievances, however, have

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resulted in some exodus of African students, largely from Bulgaria but also in smaller numbers from other Bloc countries. The exacerbation of Bloc relations with the new Iraqi regime has prompted Iraq to recall all Iraqi citizens studying in Bloc academic institutions after the January-June 1963 semester.

Military Assistance

Credits and Grants

Two new agreements between India and the USSR for the extension of \$16 million in military credits brought the minimum cumulative total of Bloc military assistance to underdeveloped countries to almost \$5 billion by the end of June 1963. New military aid agreements of undetermined value were also reportedly signed with Algeria, Cambodia, Indonesia and the UAR. The known extensions for the first half of 1963 are in marked contrast to estimated extensions of more than \$400 million in 1962. Deliveries of military equipment to Indonesia, the UAR, Syria, Algeria, Iraq, and Yemen continued under previous agreements, although the worsening of Soviet-Iraqi relations led to the cessation of such deliveries to Iraq in May.

During the review period the Bloc sought to resolve some of the problems which have plagued military aid recipients. Bloc countries entered into negotiations with India, Iraq, and the UAR in an attempt to resolve the problems of spares, replacement parts, and maintenance, and the USSR offered some relief to Indonesia's repayment burden by lengthening the repayment period so as to reduce Indonesia's annual repayment obligations.

Technicians and Trainees

Approximately 4,600 Bloc military technicians were assigned to underdeveloped countries during the first half of 1963, an increase of almost 40 percent above the second half of 1962. Greater numbers of technicians were present in Indonesia, Syria, the UAR, and Yemen, whereas the number in Iraq began to decline at the end of the period.

During the first half of 1963, 1,780 nationals from underdeveloped countries enrolled in military training programs in the Bloc. This figure is an increase of more than 25 percent above the previous 6-month period and brings the cumulative total of military trainees to the Bloc to more than 13,000 as of the end of June 1963. Indonesia, Algeria, and Afghanistan currently have the largest contingents of military personnel training in the Bloc.

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Trade

During the first half of 1963 the Sino-Soviet Bloc continued to expand its trade with the underdeveloped countries with increased stress, particularly on the part of the European Satellites, on the close relationship between trade and aid and on the importance of credit extensions as a precondition for any substantial expansion of trade with the area. The underdeveloped countries, while continuing to recognize the advantages in trade with the Bloc, displayed an increasing awareness of some of the difficulties involved in such exchanges.

In 1962, Sino-Soviet Bloc trade turnover with underdeveloped countries rose 11 percent above the 1961 level and amounted to \$2.5 billion. Although this increase was greater than the 3-percent rise noted in 1961, it was still well below the percentage gains of earlier years. The share of the underdeveloped countries in the total trade of the Sino-Soviet Bloc in 1962 continued at its recent level of about 7 percent, while the Bloc's share of the aggregate trade of the underdeveloped countries remained unchanged at about 5 percent. The Bloc, however, continued to account for a heavy share of the trade of certain underdeveloped countries, notably Afghanistan, the UAR, Mali, and Guinea.

Bloc trade with Latin America remained at about the \$300 million level of 1961, whereas Latin America's share in total Bloc trade with underdeveloped areas declined slightly to 12 percent. Asia, which recorded the largest increase in trade with the Bloc, replaced the Middle East as the most important area trading with the Bloc. In 1960, Asia and the Middle East each accounted for about 35 percent of Bloc trade with underdeveloped countries; by the end of 1962 the share of the Middle East in this trade had fallen to 32 percent while Asia's share had risen sharply to 42 percent. Bloc trade with Africa increased slightly, reflecting increased Bloc imports from Ghana.

Latin America

There were few instances of significant Latin American responses to Sino-Soviet Bloc economic overtures during the first half of 1963. The area as a whole maintained only limited economic relations with the Bloc; trade between Latin America (excluding Cuba) and the Bloc amounts to no more than 3 percent of the area's total trade. There are indications, however, that closer ties with the Bloc are developing in some countries.

The most important steps toward closer economic relations with the Bloc were taken by Brazil. In February 1963, Brazil announced ratification of a series of 1961 trade agreements with six European Satellite

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nations. The agreements contain provisions for up to \$180 million in long-term credits as well as calling for greatly increased trade levels. Brazil also signed a new trade pact with the USSR providing for a tripling of trade during the next 3 years, including shipment of large quantities of Soviet oil. As corollaries to these developments, the Brazilian Government set up a coordinating group called COLESTE to promote trade with the Bloc, and a number of trade missions from the Bloc visited the country in an effort -- unsuccessful as of the end of June -- to implement the credits extended.

The Brazilian-Soviet trade agreement does not provide for long-term credits but includes several features considered to be of considerable importance to Brazil: Strict controls are placed on reexport of goods exchanged (a measure designed to protect Brazil's position in the world coffee market), and provision is made for the transfer, with agreement of all parties concerned, of balances accumulated in trade with third countries. If trade goals set forth in the agreement are met, the USSR will provide one-third of Brazil's estimated requirements of crude petroleum and petroleum products by 1965; at present, Soviet oil forms only a small percentage of Brazil's imports.

Bolivia's negotiations with Czechoslovakia for an antimony smelter contract moved somewhat closer to approval with the offer of improved terms by the Czechoslovaks. Final approval of the contract still was being delayed by the Bolivian Government, despite leftist pressures for its acceptance.

In Chile, there are signs of increased interest in trade with the USSR, particularly in regard to copper. Negotiations were commenced for the sale by Chile of up to 21,000 tons of that product.

Uruguay's recurrent foreign exchange problems caused considerable pressure to broaden the country's export market. A number of Bloc proposals for purchases of agricultural products were made, but a sales agreement with East Germany early in the year was the only instance of final acceptance of a proposal by Uruguay.

Bloc efforts in other countries of Latin America (with the exception of Cuba) included visits by commercial missions and various trade proposals. Some sales contracts resulted from these approaches, but significantly closer economic relations between Latin America and the Bloc have not come about. British Guiana sold some rice to Cuba and several Bloc countries, received two shiploads of Soviet petroleum and flour, and sent 60 students to the Bloc on a scholarship basis.

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The Middle East

The chief developments affecting Bloc relations with the Middle East in the first half of 1963 were the following: the coup in Iraq, which replaced Qasim's regime with an anti-Communist Ba'athi government more critical of Bloc assistance programs; the buildup of Soviet technicians in Yemen, associated with UAR and Soviet military support of the Yemeni Government; and an increase in economic ties with and probably military assistance to the UAR from the Bloc.

The strong Bloc position in Iraq deteriorated sharply following the Ba'ath-dominated coup of 8 February 1963. The severe repression of Iraqi Communists by the new regime was followed by a sharply antagonistic reaction from the USSR and the European Satellites and by counter-propaganda from the Iraqi side. A general review of development plans and of Bloc-aided projects was initiated by the government; this review has yet to be completed. A number of Bloc industrial projects on which little work had been done have been canceled, whereas others well underway at the time of the review will probably be completed. Iraqi authorities indicated their interest in developing alternative sources of supply for military equipment but cannot quickly eliminate their present dependence on Soviet supplies; deliveries of some conventional military items from the USSR continued, but abrogation of a major contract for surface-to-air missiles was requested by Iraq. The number of Soviet technicians in Iraq and Iraqi students in the Bloc will have been substantially reduced by mid-summer 1963. On 9 June 1963 the Iraqi Government decreed that all academic students studying in the Bloc return to Iraq.

In Yemen the number of Soviet technicians more than doubled, rising to about 1,000: somewhat less than half were working on a military airfield north of San'a; some were serving as instructors at the military academy in Ta'izz, and others providing civilian services in the port of Hudaydah and elsewhere. Under a military assistance agreement concluded with Yemen in November 1962, the USSR reportedly provided a variety of small arms, antiaircraft guns, grenades and mines, jeeps, trucks, and ambulances. Although the equipment was used mainly by UAR troops, it is to remain in Yemen when these troops withdraw. Meanwhile, economic aid was under discussion with several Bloc countries, but only a Chinese Communist grant of wheat, valued at \$200,000, had been extended by the end of June.

The UAR obtained a new \$44.4 million credit from the USSR in June, to be used for unspecified industrial projects. In January a protocol covering final blueprints and specifications for the Aswan High Dam was concluded, and work on the dam is proceeding well. The extent of new military aid from the USSR is not known, but reports on items connected with development of surface-to-air missiles indicate rapid

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progress toward an air defense system, and it appears likely that the USSR will at least replace Egyptian arms used in the Yemeni civil war.

Elsewhere in the Near East, the USSR continued its goodwill campaign in Iran, and a Soviet delegation arrived in Teheran late in June to discuss specific proposals for joint economic cooperation.* In Syria, where a Ba'ath Party coup (like that in Iraq) occurred during March, the chief new development was the extension of a \$16 million economic credit by Communist China; other Bloc activities, including implementation of existing economic and military aid programs, proceeded without incident, and Syrian-Bloc trade rose substantially in 1962.

Africa

There were no major changes in the level or pattern of Bloc activities in Africa during the first half of 1963. The USSR undertook steps to implement more rapidly its aid program in Ghana and Guinea and initiated a large-scale military training program for Algeria. There was an increase in Bloc diplomatic representation, and the first Soviet ambassadors to Senegal and Burundi were accredited. Hungary opened the first Bloc mission in Dahomey, and the Chinese Communists opened the first Bloc mission in Uganda.

The Bloc continued to place increasing emphasis on the stimulation and support of nationalist forces in the southern third of Africa. Here the USSR and Communist China continued to support the same liberation groups, and both called upon independent Afro-Asian states to give military and financial aid to these groups.

The Bloc also made some progress in extending its air operations in Africa. An agreement with Tunisia in February gave Czechoslovak Airlines (CSA) the right to fly to Tunis. Mid-March talks in Prague resulted in the initialing by a Sudanese delegation of an air transport agreement with CSA. The agreement provides rights between Prague and Khartoum, but the Sudanese have indicated that no onward rights are to be granted. The Somali Cabinet decided to grant landing rights to Aeroflot in Somali, but Ethiopia denied the Soviet request for landing and overflight rights. The USSR attempted to obtain rights across central Africa in order to be able to fly the circular route

* On 27 July 1963 an agreement was concluded for joint development of the Aras River in northwestern Iran. The USSR extended a credit of \$38.8 million to cover Iran's share of the foreign exchange costs. Assistance also will be provided to increase the productivity of Iran's sturgeon fisheries in the Caspian Sea and for the construction of 11 grain silos.

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Moscow-Cairo-Khartoum-Accra-Conakry-Rabat-Moscow but apparently did not obtain the necessary overflight rights from Chad and Nigeria. Air Ghana service to Moscow began in February but was terminated after two flights. Aeroflot obtained and then apparently lost Guinean permission to use Conakry as a stopover on flights to Havana, but it did acquire the right to use Ouargla in Algeria for flights to Cuba.

Bloc prestige in Africa was adversely affected in February when Bulgarian militia broke up a demonstration of about 200 African students in Sofia. The students had been prohibited by the Bulgarian Government from forming a union that would represent them in efforts to alleviate some of their grievances. Approximately 150 African students left Bulgaria as a result of the incident.

Limited successes were achieved by some Bloc countries at major Afro-Asian conferences in early 1963. The Afro-Asian Peoples' Solidarity Organization (AAPSO) held its third conference at Moshi, Tanganyika, in February. Here the USSR and Communist China helped to give the conference a distinctly anti-Western character. The Chinese had relative success in posing as "non-white" champions of African liberation struggles. Two months later, the conference of Afro-Asian Journalists, from which the Chinese Communists succeeded in having the USSR excluded, benefited from contacts built up at Moshi and attracted delegates from more than 20 African territories to Djakarta. Many of these delegates, who had also attended the AAPSO conference, went on to visit Communist China.

There were few new Bloc credits to Africa in the first half of 1963.* The first long-term development credit from a Bloc country to Algeria was a \$6 million Bulgarian credit for a textile plant, tannery, and electric motor factory. Under an agreement concluded in February, Bulgaria also extended a credit of \$1.5 million to Tunisia for the construction of a sports center.

Bloc activity continued at a relatively low level in Ethiopia but greatly increased in the Somali Republic. The Somalis resisted Bloc overtures only in the military field, and the USSR moved rapidly ahead with economic aid, trade promotion efforts, and a relatively massive

* While on a trip to the USSR in June, Senegal's Secretary of State for Planning and Development signed an agreement that calls for Soviet aid in expanding the production of an agricultural project which currently consists of 6,000 hectares. Soviet assistance will be provided under the terms of a general economic and technical assistance agreement signed in June 1962. Whether or not financial assistance has been extended is not known, but it is estimated that the total cost of the project is about \$16 million.

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scholarship program. Communist China entered into active competition for Somali favor during the reporting period.

European Satellite activity, particularly by Poland and Bulgaria, represented the greatest Bloc initiatives in the field of economic assistance to Algeria. In addition to its development credit, Bulgaria also signed technical cooperation and trade and payments agreements. Poland signed trade, economic, and scientific and technical cooperation agreements with that country. The USSR has been the most active in military aid and is carrying out de-mining operations on Algeria's eastern and western borders. More than 350 Algerians went to the USSR for military training.

Despite the banning of the Tunisian Communist Party and its publications in January, the Bloc moved ahead with its economic aid program in Tunisia. Besides extending a credit for the sports center, Bulgaria renewed its trade agreement for 1963. Poland completed a spinning mill and agreed to undertake the study and financing of facilities for cooperatives.

Ghana postponed indefinitely the projected establishment of a trade mission in East Germany and continued its review of agreements with the Bloc. Ghana sought to revise its trade and payments agreements with Bloc countries to permit the periodic settlement of bilateral accounts. Complaints about the quality of Bloc equipment increased, and work on Bloc projects proceeded slowly. Provisions of previous credit extensions were revised in order to facilitate implementation of Soviet projects. A protocol signed in March earmarked unused portions of previously extended credits for the import of Soviet commodities valued at \$22.2 million. The local currency generated from the sale of these commodities will be used for the domestic costs of certain Soviet-assisted projects in Ghana.

Guinea's relations with Bloc countries continued at a reduced level. Only Communist China increased its activity as it began to implement its aid program. Economic relations with the Bloc approached a critical point as Guinea sought to make the Bloc implement its aid program at a faster pace while the Bloc tried to enforce overdue payments on trade accounts. In June an aid protocol provided for the creation of a Soviet building organization in Guinea to be fully responsible for the completion of all Soviet aid projects.

Mali's financial situation deteriorated as debts to the Bloc became due in increasing amounts; the country defaulted on payments, and the USSR apparently agreed to ease some of the terms. The Bloc retained its dominant position in Mali's aviation, but Air Mali continued to have financial difficulties. The Bloc's major aid projects made little

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progress, and no new ones were announced. Some of the Bloc-supported economic ventures have proved disappointing. Meanwhile, however, the extensive Malian-Bloc exchange of delegations continued, President Keita received the Lenin Peace Prize, and Malian information media continued to favor the Bloc.

In East Africa, Bloc efforts consisted primarily of diplomatic, cultural, and trade relations. The only significant commercial activity was the Chinese purchase of Tanganyikan and Ugandan cotton, which caused a price rise in both countries' markets. Uganda and Kenya sent commercial missions to the Bloc in quest of markets, and the Bloc can expand its presence in the East African economy by purchasing those agricultural products on which export earnings are dependent and for which the world market is limited.

Asia

The most noteworthy developments in Southeast Asia during the first half of 1963 consisted of the first acceptance by Cambodia of military equipment from the USSR, Burma's purchase of additional tractors from the USSR and Czechoslovakia, and the Soviet accommodation on repayments on outstanding debts owed by Indonesia. In South Asia, significant developments included (1) a shift of government in Afghanistan which appeared favorable to the West and a renewal of economic relations with Pakistan when the latter opened its borders once again for transit to Afghanistan and (2) Soviet deliveries of fighter planes to India, followed by offers of broader military aid and the conclusion of a trade agreement calling for expanded commerce between the USSR and India.

In Indonesia the Soviet Bloc continued its policy of supporting President Sukarno and received from him in turn support for a number of Bloc positions in the international field. However, Soviet leverage in Indonesia decreased somewhat as a result of the adoption by the Indonesian Government in May of an economic stabilization program along Western lines and predicated upon substantial new economic aid from the West. The USSR, after prolonged negotiations, agreed to reduce the annual payments on Indonesian military indebtedness, a concession the United States had stipulated as a precondition to Western aid. At the same time, the way was prepared for more rapid implementation of Soviet economic aid commitments.

Prince Sihanouk continued to emphasize the special position of Communist China as a friend and protector of Cambodia. Sihanouk's visit to Communist China in February and Liu Shao-chi's return visit to Cambodia in May were occasions for a reaffirmation of mutual support, although no new economic credits were forthcoming from the Chinese. The USSR extended a credit of \$12.2 million to Cambodia for

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the construction of a dam on the Kamchay River. The USSR also agreed to supply four MIG aircraft, 24 37-mm antiaircraft guns, and some radio equipment -- the first penetration by the Bloc into the military aid field in Cambodia.

The major developments in Burmese-Bloc relations during the first half of 1963 were the Burmese purchase in January of an additional 500 tractors from Czechoslovakia, bringing the total number purchased from that Bloc country to 2,000, and the purchase of 1,000 tractors from the USSR in March. The tractors from the USSR were purchased under a \$2.6 million credit to be repaid over 5 years at 2.5 percent interest. The Bloc will thus play a significant role in the development of the agricultural sector in Burma.

Prime Minister Daud of Afghanistan, who had supported the development of Afghan relations with the USSR, resigned in March and was replaced by a more pro-Western regime. In May, Afghan-Pakistan diplomatic relations were restored, and the transit route through Pakistan was reopened. The latter development provided a significant assist for the Afghan economy and reduced its dependence on the Soviet transit route. No change in the Soviet military program was observed, but the new regime has reportedly shown interest in obtaining some military supplies and training in the West. New aid agreements concluded during the period totaled \$5.5 million. Of the total, \$1.5 million was for the import of wheat to generate local currency for use in Soviet projects and \$4 million was for a 5-year trade credit. Weekly air service between Prague and Kabul was inaugurated by the Czechoslovak Airlines, and the Soviet-built air terminal at Kabul was opened. The 1963 Soviet-Afghan trade protocol provided for an Afghan trade surplus of \$6 million, the bulk of which is indebtedness to the USSR, but it did not require that Afghan hard currency earning products -- karakul and carpets -- be exported to the USSR as the USSR had initially demanded.

Soviet willingness to provide military aid to India, thrown into question in late 1962 after the Chinese Communist attack from the Tibetan border, was reaffirmed when the first shipment of MIG-21's previously promised was delivered in February 1963. Two further agreements were signed during the period under review between the USSR and India -- for military aid valued at \$16 million. In June the USSR and Czechoslovakia offered a wide range of military equipment, and an Indian negotiating mission left for Moscow in July. There were only minor additions in 1963 to the substantial Bloc economic aid program in India, but new agreements with the USSR project a continuing increase in Indian-Soviet trade and in cultural exchanges. Implementation of existing projects progressed without difficulties.

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Czechoslovakia extended a \$5.6 million credit to Indonesia in June for the purchase of trucks.

In other parts of South Asia, Bloc activities in Ceylon and Nepal continued at a moderate level but without any significant new developments. Half of the original 16 Soviet projects in Ceylon have been dropped, owing largely to poor Ceylonese planning. Construction was begun on the Soviet iron and steel mill, and several Czechoslovak projects were close to completion. Poland extended a credit of \$6.4 million to Ceylon for the purchase of industrial equipment. Considerable progress was made on the Soviet sugar and cigaret factories and the hydroelectric project in Nepal, and the Chinese Communists completed a survey of the road from Katmandu to the Tibetan border. Communist China's approaches to Pakistan included a border agreement (concluded in December 1962 and signed in March 1963), discussion of a civil air agreement, and a trade agreement which added little to existing trade.

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SECRET



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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN
NON-COMMUNIST UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963**

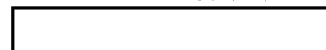
SUMMARY

(The complete text of this report has been published separately.)

EIC R14-S15

September 1963

**ECONOMIC INTELLIGENCE COMMITTEE
of the
UNITED STATES INTELLIGENCE BOARD**



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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 January through 30 June 1963, constitutes the fifteenth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, including representatives of the Department of State; the Defense Intelligence Agency; the Departments of Commerce and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 27 August 1963.

For the purposes of this report, the term underdeveloped areas includes the following countries of the Free World: (1) all countries in Latin America except Cuba; (2) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, and Spain.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN NON-COMMUNIST UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963

Summary*

Current Trends

Sino-Soviet Bloc economic aid activities in underdeveloped countries during the first 6 months of 1963 continued to reflect a more critical appraisal by both lending and recipient countries -- an appraisal in which the Bloc gave evidence of a more realistic assessment of the politicostrategic returns commensurate with the aid resources committed and some underdeveloped countries exhibited a greater appreciation of the limitations of Bloc economic assistance. While both the level and the more selective pattern of new Bloc aid extensions have reflected this changing assessment, both the Bloc and the underdeveloped countries have been reluctant to relinquish a program which has hitherto netted some advantages to both sides.

Sino-Soviet Bloc new economic aid extensions during this 6-month review period totaled \$101 million** -- the smallest Bloc commitment during any comparable period since 1957. Although the only known military aid extended during the first half of 1963 was \$16 million in credits to India, a military agreement of unknown value with Cambodia was concluded in March or April. It is possible that agreements were also concluded with Algeria, the United Arab Republic (UAR), and Indonesia. Deliveries of equipment under previous military aid commitments continued unabated.

It is still not possible to state with confidence, however, the extent to which the lag in new extensions reflects (1) a more cautious and selective approach motivated by the apparent feeling in some Bloc circles that economic aid has not been as effective as had earlier been anticipated in furthering Bloc policy objectives, (2) a decision by the USSR to lessen the burden of its aid program in view of domestic economic stringencies and substantial commitments in Cuba and elsewhere, (3) the large backlog of undrawn credits resulting partly from the inability of recipient countries to implement their part of the program, or (4) more limited opportunities in newly emergent countries for large-scale aid agreements of the kind that the Bloc has hitherto entered into.

* See the summary chart, Figure 1, following p. 14, and the summary table, p. 15.

** All data in this report exclude Cuba and Yugoslavia and thus are not comparable to aggregative figures in previous issues of the EIC-R14 series.

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When viewed against (1) some disappointing results of the program in Iraq, Africa, and elsewhere, (2) the simultaneous Bloc commitments in heavy industry, military, space, consumer welfare, and support for less developed Bloc members and Cuba, and (3) bitter Chinese and other Communist denunciations of Khrushchev's coexistence strategy in underdeveloped areas, foreign aid may well have also generated larger political issues within the Bloc than the actual economic costs of the aid program would seem to warrant. Indeed, all these factors probably have contributed to the recent decline in new Bloc aid commitments.

The first half of 1963 was also marked by ambivalent attitudes toward Bloc aid by many of the underdeveloped country recipients. Guinea, Ghana, and Mali, countries on which the Bloc had pinned great hopes for extending its influence in Africa, have been increasingly vocal in expressing their dissatisfaction with the implementation of Bloc aid. Ugly racial incidents involving African students in the USSR, Czechoslovakia, and Bulgaria have also tended to generate hostile, if only transitory, criticism of the Bloc. In Iraq the new regime sought to redress the balance of its Bloc-oriented predecessor by seeking to cancel its contract for Soviet missiles and by canceling two economic aid projects and halting the implementation of three others pending a more thoroughgoing review. In addition, the government has reportedly recalled almost all military personnel undergoing training in the USSR and all Iraqi citizens currently enrolled in Bloc academic institutions. However, by the end of the reporting period very few of the academic students had returned. Afghanistan, Indonesia, and the UAR also have indicated a greater desire to establish closer relations with the West as a means of decreasing their dependence on the Bloc.

In response to such mounting problems and disappointments coincident with the implementation of its aid program -- difficulties not peculiar to Bloc programs alone -- the USSR has sought to adopt a more flexible and pragmatic approach in order to facilitate more rapid implementation of its aid projects. In Guinea, after talks reportedly marked by much mutual recrimination and hard bargaining and during which Guinean grievances over the cost and rate of implementation of Soviet projects and the shortcomings of Soviet technicians were aired along with Soviet frustration over Guinea's delay in providing local labor and materials, the USSR agreed to assume full responsibility for the completion of all Soviet aid projects in Guinea -- a step which Moscow had hitherto been reluctant to take. In Ghana, similar efforts by the USSR to facilitate lagging implementation of its aid projects resulted in a Soviet agreement to allocate \$22 million of previously extended developmental credits for the purchase of Soviet commodities, the proceeds of which are to be used exclusively to

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finance the local currency costs of certain Soviet-assisted projects. In response to Indonesian entreaties, the USSR has reportedly agreed to a substantial reduction of the annual payments on Soviet military loans and to a rescheduling of the payments over a longer period. A similar Indonesian request of Czechoslovakia was, however, rejected.

While the USSR at first seemed eager to salvage what it could of its heavy commitments in Iraq, continued Baghdad repression of Iraqi Communists and an offensive against the Kurdish minority provoked strong Soviet reaction. In an unprecedented threat belying the "disinterested" nature of Soviet aid, Pravda warned that Moscow's patience -- and its aid funds -- were not inexhaustible. Pravda asserted that the rendering of aid to newly independent states did not mean that the USSR had "money to spare" or that such funds could not be used profitably at home. The USSR, therefore, could not remain indifferent to the objectives on which its aid funds were being spent.

While Bloc aid programs were meeting delays and dissatisfaction in some countries, they were apparently making progress in others. Bloc projects in the UAR, particularly the High Dam, were reportedly moving ahead satisfactorily, and a new economic credit of nearly \$45 million was extended by the USSR during the 6-month period. Construction work was stepped up on Bloc projects in the Somali Republic and Yemen, and the number of Soviet technicians in both countries increased substantially. Work appeared to be moving ahead at a faster pace, too, in India and Afghanistan. The USSR widened its commitments to Cambodia by signing agreements for military aid and for a power dam. Brazil finally ratified a number of large, medium-term credits from the European Satellites extended in 1961 and 1962 for machinery and equipment purchases under bilateral trade agreements.

During the past year, Soviet spokesmen have openly expressed the limited foreign aid potential of the USSR and coupled such statements with demands that underdeveloped countries rely more on their own resources or seek more aid from the West and the UN. Moreover, in contrast to the preeminent role that hitherto has been accorded the Bloc aid program, Moscow, perhaps under the urgings of its European Satellites who rely more than the USSR on foreign trade, has tended to place increased emphasis on trade rather than aid as the more decisive factor in securing and maintaining the "economic independence" of new states. There is no firm evidence, however, that the Soviet leadership has revised any of its fundamental assumptions with respect to its policies in underdeveloped areas. Indeed, under the pressures of Chinese criticisms, Pravda on 7 August, in a major exposition of the USSR's aid program, sought to reassert with increased vigor the true militancy of the Soviet doctrine of coexistence and the implicit connection of its trade and aid program -- with which its prestige seems

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irrevocably committed -- with the wider political objectives of the national liberation movement.

Bloc Economic Assistance

Credits and Grants

Bloc economic aid extensions to underdeveloped countries totaled \$101 million during the first half of 1963, the lowest semiannual aid commitment since 1957. The UAR, Syria, and Cambodia were the major recipients of new Bloc aid, bringing the cumulative total of Bloc economic credits extended since the beginning of the program in 1954 to \$4.7 billion. The USSR contributed almost two-thirds of the total of new aid extended in the first 6 months of 1963; the European Satellites contributed almost 20 percent, and Communist China the remainder. More than two-thirds of total Bloc credits extended during this period went to industry, 12 percent to hydroelectric power development, and approximately 3 percent to agriculture.

Drawings in the first half of 1963 were \$209 million, bringing the total cumulative drawings on economic credits to \$1.5 billion. Dissatisfaction on both sides with the slow progress of many Bloc aid projects has led the USSR to intensify its efforts to accelerate the implementation of credits already extended. Recent instances in Guinea, Ghana, and Afghanistan suggest that even greater emphasis on project implementation may be anticipated in the future.

Technicians and Trainees

Bloc economic technicians employed in underdeveloped countries during the first 6 months of 1963 numbered approximately 11,250, an increase of almost 20 percent over the previous 6-month period. Greater economic aid activity in Algeria, India, Iraq, the Somali Republic, the UAR, and Yemen accounted for about 90 percent of the net increase. Afghanistan, Algeria, Guinea, India, Iraq, the UAR, and Yemen employed almost three-fourths of the total number of Bloc economic technicians. Approximately 15 percent of the total technicians were engaged in medical, education, planning, advisory, and managerial activities not related to economic aid credits -- indicating a significant growth in nonproject technical assistance activities.

During the first 6 months of 1963, approximately 1,400 academic and technical trainees from underdeveloped countries enrolled in Bloc institutions, bringing to approximately 12,000 those who are currently receiving instruction. It is estimated that 18,300 students have undertaken such training since the inception of the Bloc's aid program. Complaints of racial discrimination, political indoctrination, dissatisfaction with academic curricula, and other grievances, however, have

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resulted in some exodus of African students, largely from Bulgaria but also in smaller numbers from other Bloc countries. The exacerbation of Bloc relations with the new Iraqi regime has prompted Iraq to recall all Iraqi citizens studying in Bloc academic institutions after the January-June 1963 semester.

Military Assistance

Credits and Grants

Two new agreements between India and the USSR for the extension of \$16 million in military credits brought the minimum cumulative total of Bloc military assistance to underdeveloped countries to almost \$3 billion by the end of June 1963. New military aid agreements of undetermined value were also reportedly signed with Algeria, Cambodia, Indonesia, and the UAR. The known extensions for the first half of 1963 are in marked contrast to estimated extensions of more than \$400 million in 1962. Deliveries of military equipment to Indonesia, the UAR, Syria, Algeria, Iraq, and Yemen continued under previous agreements, although the worsening of Soviet-Iraqi relations led to the cessation of such deliveries to Iraq in May.

During the review period the Bloc sought to resolve some of the problems which have plagued military aid recipients. Bloc countries entered into negotiations with India, Iraq, and the UAR in an attempt to resolve the problems of spares, replacement parts, and maintenance, and the USSR offered some relief to Indonesia's repayment burden by lengthening the repayment period so as to reduce Indonesia's annual repayment obligations.

Technicians and Trainees

Approximately 4,600 Bloc military technicians were assigned to underdeveloped countries during the first half of 1963, an increase of almost 40 percent above the second half of 1962. Greater numbers of technicians were present in Indonesia, Syria, the UAR, and Yemen, whereas the number in Iraq began to decline at the end of the period.

During the first half of 1963, 1,780 nationals from underdeveloped countries enrolled in military training programs in the Bloc. This figure is an increase of more than 25 percent above the previous 6-month period and brings the cumulative total of military trainees to the Bloc to more than 13,000 as of the end of June 1963. Indonesia, Algeria, and Afghanistan currently have the largest contingents of military personnel training in the Bloc.

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Trade

During the first half of 1963 the Sino-Soviet Bloc continued to expand its trade with the underdeveloped countries with increased stress, particularly on the part of the European Satellites, on the close relationship between trade and aid and on the importance of credit extensions as a precondition for any substantial expansion of trade with the area. The underdeveloped countries, while continuing to recognize the advantages in trade with the Bloc, displayed an increasing awareness of some of the difficulties involved in such exchanges.

In 1962, Sino-Soviet Bloc trade turnover with underdeveloped countries rose 11 percent above the 1961 level and amounted to \$2.5 billion. Although this increase was greater than the 3-percent rise noted in 1961, it was still well below the percentage gains of earlier years. The share of the underdeveloped countries in the total trade of the Sino-Soviet Bloc in 1962 continued at its recent level of about 7 percent, while the Bloc's share of the aggregate trade of the underdeveloped countries remained unchanged at about 5 percent. The Bloc, however, continued to account for a heavy share of the trade of certain underdeveloped countries, notably Afghanistan, the UAR, Mali, and Guinea.

Bloc trade with Latin America remained at about the \$300 million level of 1961, whereas Latin America's share in total Bloc trade with underdeveloped areas declined slightly to 12 percent. Asia, which recorded the largest increase in trade with the Bloc, replaced the Middle East as the most important area trading with the Bloc. In 1960, Asia and the Middle East each accounted for about 35 percent of Bloc trade with underdeveloped countries; by the end of 1962 the share of the Middle East in this trade had fallen to 32 percent while Asia's share had risen sharply to 42 percent. Bloc trade with Africa increased slightly, reflecting increased Bloc imports from Ghana.

Latin America

There were few instances of significant Latin American responses to Sino-Soviet Bloc economic overtures during the first half of 1963. The area as a whole maintained only limited economic relations with the Bloc; trade between Latin America (excluding Cuba) and the Bloc amounts to no more than 3 percent of the area's total trade. There are indications, however, that closer ties with the Bloc are developing in some countries.

The most important steps toward closer economic relations with the Bloc were taken by Brazil. In February 1963, Brazil announced ratification of a series of 1961 trade agreements with six European Satellite

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nations. The agreements contain provisions for up to \$180 million in long-term credits as well as calling for greatly increased trade levels. Brazil also signed a new trade pact with the USSR providing for a tripling of trade during the next 3 years, including shipment of large quantities of Soviet oil. As corollaries to these developments, the Brazilian Government set up a coordinating group called COLESTE to promote trade with the Bloc, and a number of trade missions from the Bloc visited the country in an effort -- unsuccessful as of the end of June -- to implement the credits extended.

The Brazilian-Soviet trade agreement does not provide for long-term credits but includes several features considered to be of considerable importance to Brazil: Strict controls are placed on reexport of goods exchanged (a measure designed to protect Brazil's position in the world coffee market), and provision is made for the transfer, with agreement of all parties concerned, of balances accumulated in trade with third countries. If trade goals set forth in the agreement are met, the USSR will provide one-third of Brazil's estimated requirements of crude petroleum and petroleum products by 1965; at present, Soviet oil forms only a small percentage of Brazil's imports.

Bolivia's negotiations with Czechoslovakia for an antimony smelter contract moved somewhat closer to approval with the offer of improved terms by the Czechoslovaks. Final approval of the contract still was being delayed by the Bolivian Government, despite leftist pressures for its acceptance.

In Chile, there are signs of increased interest in trade with the USSR, particularly in regard to copper. Negotiations were commenced for the sale by Chile of up to 21,000 tons of that product.

Uruguay's recurrent foreign exchange problems caused considerable pressure to broaden the country's export market. A number of Bloc proposals for purchases of agricultural products were made, but a sales agreement with East Germany early in the year was the only instance of final acceptance of a proposal by Uruguay.

Bloc efforts in other countries of Latin America (with the exception of Cuba) included visits by commercial missions and various trade proposals. Some sales contracts resulted from these approaches, but significantly closer economic relations between Latin America and the Bloc have not come about. British Guiana sold some rice to Cuba and several Bloc countries, received two shiploads of Soviet petroleum and flour, and sent 60 students to the Bloc on a scholarship basis.

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The Middle East

The chief developments affecting Bloc relations with the Middle East in the first half of 1963 were the following: the coup in Iraq, which replaced Qasim's regime with an anti-Communist Ba'athi government more critical of Bloc assistance programs; the buildup of Soviet technicians in Yemen, associated with UAR and Soviet military support of the Yemeni Government; and an increase in economic ties with and probably military assistance to the UAR from the Bloc.

The strong Bloc position in Iraq deteriorated sharply following the Ba'ath-dominated coup of 8 February 1963. The severe repression of Iraqi Communists by the new regime was followed by a sharply antagonistic reaction from the USSR and the European Satellites and by counter-propaganda from the Iraqi side. A general review of development plans and of Bloc-aided projects was initiated by the government; this review has yet to be completed. A number of Bloc industrial projects on which little work had been done have been canceled, whereas others well underway at the time of the review will probably be completed. Iraqi authorities indicated their interest in developing alternative sources of supply for military equipment but cannot quickly eliminate their present dependence on Soviet supplies; deliveries of some conventional military items from the USSR continued, but abrogation of a major contract for surface-to-air missiles was requested by Iraq. The number of Soviet technicians in Iraq and Iraqi students in the Bloc will have been substantially reduced by mid-summer 1963. On 9 June 1963 the Iraqi Government decreed that all academic students studying in the Bloc return to Iraq.

In Yemen the number of Soviet technicians more than doubled, rising to about 1,000: somewhat less than half were working on a military airfield north of San'a; some were serving as instructors at the military academy in Ta'izz, and others providing civilian services in the port of Hudaydah and elsewhere. Under a military assistance agreement concluded with Yemen in November 1962, the USSR reportedly provided a variety of small arms, antiaircraft guns, grenades and mines, jeeps, trucks, and ambulances. Although the equipment was used mainly by UAR troops, it is to remain in Yemen when these troops withdraw. Meanwhile, economic aid was under discussion with several Bloc countries, but only a Chinese Communist grant of wheat, valued at \$200,000, had been extended by the end of June.

The UAR obtained a new \$44.4 million credit from the USSR in June, to be used for unspecified industrial projects. In January a protocol covering final blueprints and specifications for the Aswan High Dam was concluded, and work on the dam is proceeding well. The extent of new military aid from the USSR is not known, but reports on items connected with development of surface-to-air missiles indicate rapid

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progress toward an air defense system, and it appears likely that the USSR will at least replace Egyptian arms used in the Yemeni civil war.

Elsewhere in the Near East, the USSR continued its goodwill campaign in Iran, and a Soviet delegation arrived in Teheran late in June to discuss specific proposals for joint economic cooperation.* In Syria, where a Ba'ath Party coup (like that in Iraq) occurred during March, the chief new development was the extension of a \$16 million economic credit by Communist China; other Bloc activities, including implementation of existing economic and military aid programs, proceeded without incident, and Syrian-Bloc trade rose substantially in 1962.

Africa

There were no major changes in the level or pattern of Bloc activities in Africa during the first half of 1963. The USSR undertook steps to implement more rapidly its aid program in Ghana and Guinea and initiated a large-scale military training program for Algeria. There was an increase in Bloc diplomatic representation, and the first Soviet ambassadors to Senegal and Burundi were accredited. Hungary opened the first Bloc mission in Dahomey, and the Chinese Communists opened the first Bloc mission in Uganda.

The Bloc continued to place increasing emphasis on the stimulation and support of nationalist forces in the southern third of Africa. Here the USSR and Communist China continued to support the same liberation groups, and both called upon independent Afro-Asian states to give military and financial aid to these groups.

The Bloc also made some progress in extending its air operations in Africa. An agreement with Tunisia in February gave Czechoslovak Airlines (CSA) the right to fly to Tunis. Mid-March talks in Prague resulted in the initialing by a Sudanese delegation of an air transport agreement with CSA. The agreement provides rights between Prague and Khartoum, but the Sudanese have indicated that no onward rights are to be granted. The Somali Cabinet decided to grant landing rights to Aeroflot in Somali, but Ethiopia denied the Soviet request for landing and overflight rights. The USSR attempted to obtain rights across central Africa in order to be able to fly the circular route

* On 27 July 1963 an agreement was concluded for joint development of the Aras River in northwestern Iran. The USSR extended a credit of \$38.8 million to cover Iran's share of the foreign exchange costs. Assistance also will be provided to increase the productivity of Iran's sturgeon fisheries in the Caspian Sea and for the construction of 11 grain silos.

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Moscow-Cairo-Khartoum-Accra-Conakry-Rabat-Moscow but apparently did not obtain the necessary overflight rights from Chad and Nigeria. Air Ghana service to Moscow began in February but was terminated after two flights. Aeroflot obtained and then apparently lost Guinean permission to use Conakry as a stopover on flights to Havana, but it did acquire the right to use Ouargla in Algeria for flights to Cuba.

Bloc prestige in Africa was adversely affected in February when Bulgarian militia broke up a demonstration of about 200 African students in Sofia. The students had been prohibited by the Bulgarian Government from forming a union that would represent them in efforts to alleviate some of their grievances. Approximately 150 African students left Bulgaria as a result of the incident.

Limited successes were achieved by some Bloc countries at major Afro-Asian conferences in early 1963. The Afro-Asian Peoples' Solidarity Organization (AAPSO) held its third conference at Moshi, Tanganyika, in February. Here the USSR and Communist China helped to give the conference a distinctly anti-Western character. The Chinese had relative success in posing as "non-white" champions of African liberation struggles. Two months later, the conference of Afro-Asian Journalists, from which the Chinese Communists succeeded in having the USSR excluded, benefited from contacts built up at Moshi and attracted delegates from more than 20 African territories to Djakarta. Many of these delegates, who had also attended the AAPSO conference, went on to visit Communist China.

There were few new Bloc credits to Africa in the first half of 1963.* The first long-term development credit from a Bloc country to Algeria was a \$6 million Bulgarian credit for a textile plant, tannery, and electric motor factory. Under an agreement concluded in February, Bulgaria also extended a credit of \$1.5 million to Tunisia for the construction of a sports center.

Bloc activity continued at a relatively low level in Ethiopia but greatly increased in the Somali Republic. The Somalis resisted Bloc overtures only in the military field, and the USSR moved rapidly ahead with economic aid, trade promotion efforts, and a relatively massive

* While on a trip to the USSR in June, Senegal's Secretary of State for Planning and Development signed an agreement that calls for Soviet aid in expanding the production of an agricultural project which currently consists of 6,000 hectares. Soviet assistance will be provided under the terms of a general economic and technical assistance agreement signed in June 1962. Whether or not financial assistance has been extended is not known, but it is estimated that the total cost of the project is about \$16 million.

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scholarship program. Communist China entered into active competition for Somali favor during the reporting period.

European Satellite activity, particularly by Poland and Bulgaria, represented the greatest Bloc initiatives in the field of economic assistance to Algeria. In addition to its development credit, Bulgaria also signed technical cooperation and trade and payments agreements. Poland signed trade, economic, and scientific and technical cooperation agreements with that country. The USSR has been the most active in military aid and is carrying out de-mining operations on Algeria's eastern and western borders. More than 350 Algerians went to the USSR for military training.

Despite the banning of the Tunisian Communist Party and its publications in January, the Bloc moved ahead with its economic aid program in Tunisia. Besides extending a credit for the sports center, Bulgaria renewed its trade agreement for 1963. Poland completed a spinning mill and agreed to undertake the study and financing of facilities for cooperatives.

Ghana postponed indefinitely the projected establishment of a trade mission in East Germany and continued its review of agreements with the Bloc. Ghana sought to revise its trade and payments agreements with Bloc countries to permit the periodic settlement of bilateral accounts. Complaints about the quality of Bloc equipment increased, and work on Bloc projects proceeded slowly. Provisions of previous credit extensions were revised in order to facilitate implementation of Soviet projects. A protocol signed in March earmarked unused portions of previously extended credits for the import of Soviet commodities valued at \$22.2 million. The local currency generated from the sale of these commodities will be used for the domestic costs of certain Soviet-assisted projects in Ghana.

Guinea's relations with Bloc countries continued at a reduced level. Only Communist China increased its activity as it began to implement its aid program. Economic relations with the Bloc approached a critical point as Guinea sought to make the Bloc implement its aid program at a faster pace while the Bloc tried to enforce overdue payments on trade accounts. In June an aid protocol provided for the creation of a Soviet building organization in Guinea to be fully responsible for the completion of all Soviet aid projects.

Mali's financial situation deteriorated as debts to the Bloc became due in increasing amounts; the country defaulted on payments, and the USSR apparently agreed to ease some of the terms. The Bloc retained its dominant position in Mali's aviation, but Air Mali continued to have financial difficulties. The Bloc's major aid projects made little

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progress, and no new ones were announced. Some of the Bloc-supported economic ventures have proved disappointing. Meanwhile, however, the extensive Malian-Bloc exchange of delegations continued, President Keita received the Lenin Peace Prize, and Malian information media continued to favor the Bloc.

In East Africa, Bloc efforts consisted primarily of diplomatic, cultural, and trade relations. The only significant commercial activity was the Chinese purchase of Tanganyikan and Ugandan cotton, which caused a price rise in both countries' markets. Uganda and Kenya sent commercial missions to the Bloc in quest of markets, and the Bloc can expand its presence in the East African economy by purchasing those agricultural products on which export earnings are dependent and for which the world market is limited.

Asia

The most noteworthy developments in Southeast Asia during the first half of 1963 consisted of the first acceptance by Cambodia of military equipment from the USSR, Burma's purchase of additional tractors from the USSR and Czechoslovakia, and the Soviet accommodation on repayments on outstanding debts owed by Indonesia. In South Asia, significant developments included (1) a shift of government in Afghanistan which appeared favorable to the West and a renewal of economic relations with Pakistan when the latter opened its borders once again for transit to Afghanistan and (2) Soviet deliveries of fighter planes to India, followed by offers of broader military aid and the conclusion of a trade agreement calling for expanded commerce between the USSR and India.

In Indonesia the Soviet Bloc continued its policy of supporting President Sukarno and received from him in turn support for a number of Bloc positions in the international field. However, Soviet leverage in Indonesia decreased somewhat as a result of the adoption by the Indonesian Government in May of an economic stabilization program along Western lines and predicated upon substantial new economic aid from the West. The USSR, after prolonged negotiations, agreed to reduce the annual payments on Indonesian military indebtedness, a concession the United States had stipulated as a precondition to Western aid. At the same time, the way was prepared for more rapid implementation of Soviet economic aid commitments.

Prince Sihanouk continued to emphasize the special position of Communist China as a friend and protector of Cambodia. Sihanouk's visit to Communist China in February and Liu Shao-chi's return visit to Cambodia in May were occasions for a reaffirmation of mutual support, although no new economic credits were forthcoming from the Chinese. The USSR extended a credit of \$12.2 million to Cambodia for

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the construction of a dam on the Kamchay River. The USSR also agreed to supply four MIG aircraft, 24 37-mm antiaircraft guns, and some radio equipment -- the first penetration by the Bloc into the military aid field in Cambodia.

The major developments in Burmese-Bloc relations during the first half of 1963 were the Burmese purchase in January of an additional 500 tractors from Czechoslovakia, bringing the total number purchased from that Bloc country to 2,000, and the purchase of 1,000 tractors from the USSR in March. The tractors from the USSR were purchased under a \$2.6 million credit to be repaid over 5 years at 2.5 percent interest. The Bloc will thus play a significant role in the development of the agricultural sector in Burma.

Prime Minister Daud of Afghanistan, who had supported the development of Afghan relations with the USSR, resigned in March and was replaced by a more pro-Western regime. In May, Afghan-Pakistan diplomatic relations were restored, and the transit route through Pakistan was reopened. The latter development provided a significant assist for the Afghan economy and reduced its dependence on the Soviet transit route. No change in the Soviet military program was observed, but the new regime has reportedly shown interest in obtaining some military supplies and training in the West. New aid agreements concluded during the period totaled \$5.5 million. Of the total, \$1.5 million was for the import of wheat to generate local currency for use in Soviet projects and \$4 million was for a 5-year trade credit. Weekly air service between Prague and Kabul was inaugurated by the Czechoslovak Airlines, and the Soviet-built air terminal at Kabul was opened. The 1963 Soviet-Afghan trade protocol provided for an Afghan trade surplus of \$6 million, the bulk of which is indebtedness to the USSR, but it did not require that Afghan hard currency earning products -- karakul and carpets -- be exported to the USSR as the USSR had initially demanded.

Soviet willingness to provide military aid to India, thrown into question in late 1962 after the Chinese Communist attack from the Tibetan border, was reaffirmed when the first shipment of MIG-21's previously promised was delivered in February 1963. Two further agreements were signed during the period under review between the USSR and India -- for military aid valued at \$16 million. In June the USSR and Czechoslovakia offered a wide range of military equipment, and an Indian negotiating mission left for Moscow in July. There were only minor additions in 1963 to the substantial Bloc economic aid program in India, but new agreements with the USSR project a continuing increase in Indian-Soviet trade and in cultural exchanges. Implementation of existing projects progressed without difficulties.

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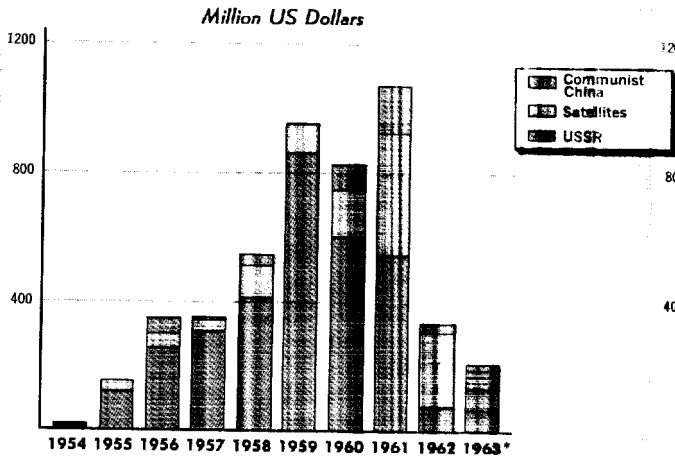
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Fig. 7

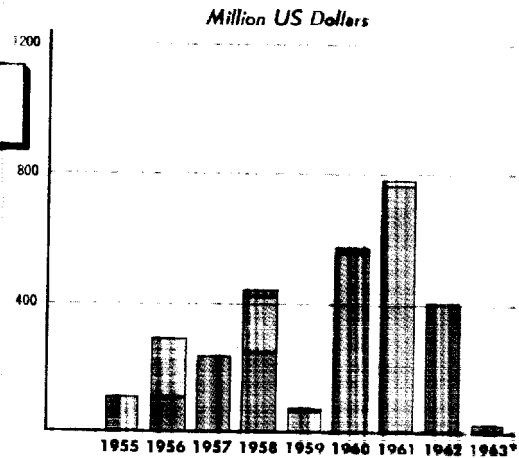
BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS¹

Selected Years, 1954 - June 1963

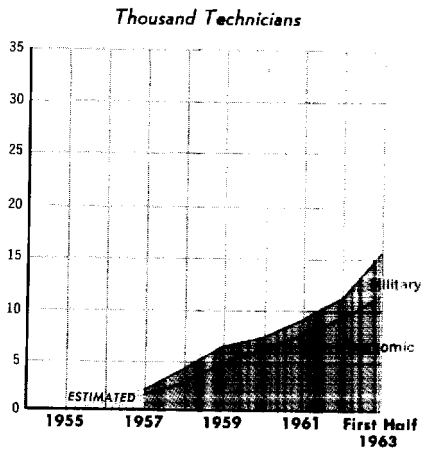
BLOC ECONOMIC ASSISTANCE TO UNDERDEVELOPED COUNTRIES 1954 - JUNE 1963



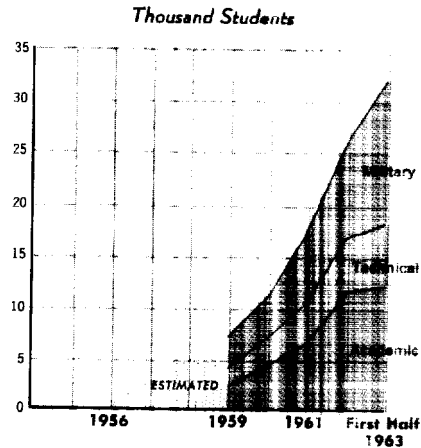
BLOC MILITARY AID TO UNDERDEVELOPED COUNTRIES, 1955 - JUNE 1963**



BLOC ECONOMIC AND MILITARY TECHNICIANS IN UNDERDEVELOPED COUNTRIES, 1955 - JUNE 1963



STUDENTS FROM UNDERDEVELOPED COUNTRIES TRAINED IN THE BLOC, 1956 - JUNE 1963



¹ Excluding Cuba and Yugoslavia.

* Projected at an annual rate from first 6 months of 1963.

** Since Bloc Military Assistance for some countries cannot be distributed by year, annual figures are only estimates.

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963**

October 1963

GROUP 1
Excluded from automatic
downgrading and
declassification

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in this series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in biweekly reports under the same title.

This report, covering the 6 months from 1 January through 30 June 1963, constitutes the fifteenth periodic supplement to a background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries.

For the purposes of this report, the term underdeveloped areas includes the following countries of the Free World: (1) all countries in Latin America except Cuba; (2) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, and Spain.

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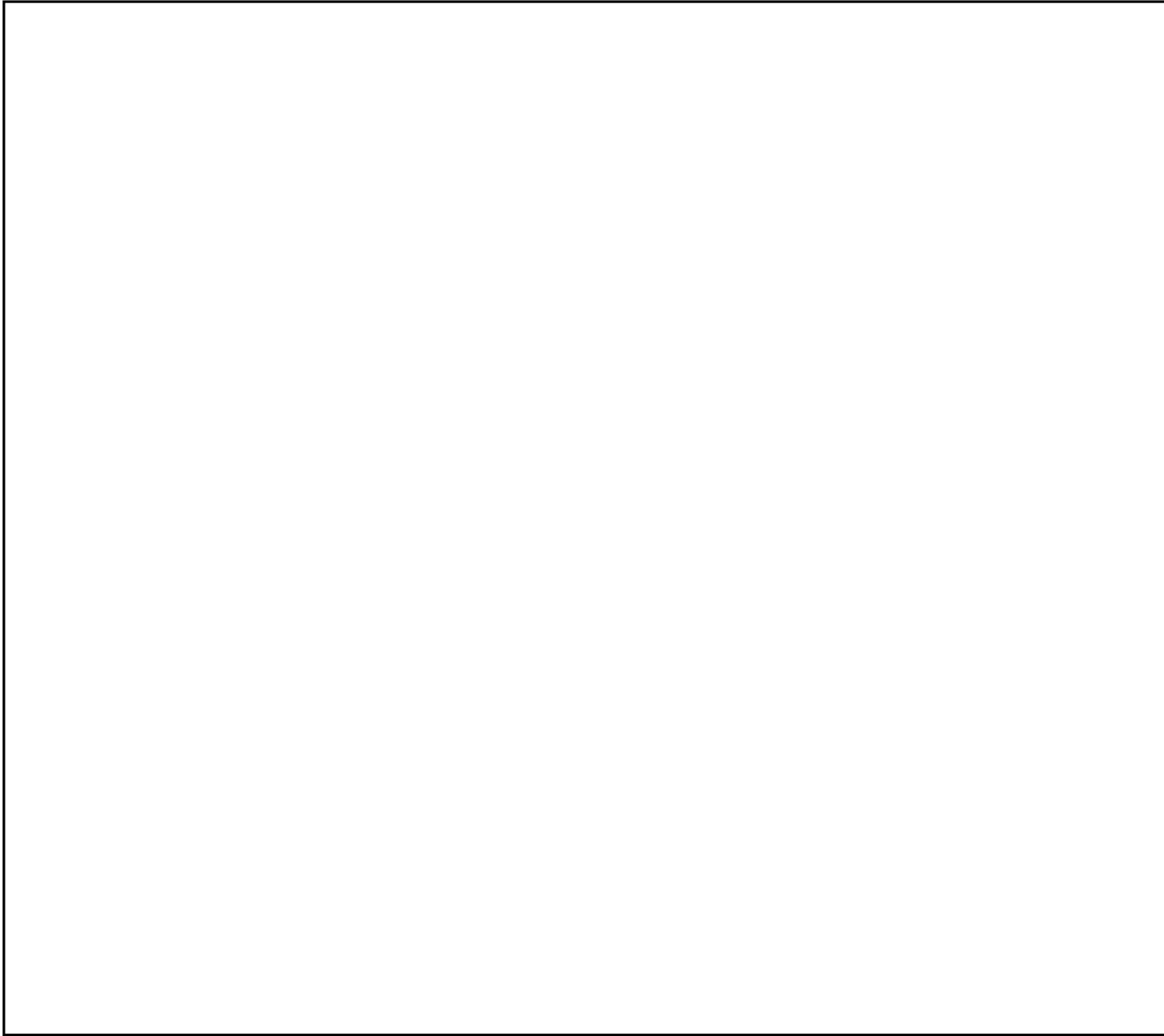
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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN NON-COMMUNIST UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1963

Summary

Current Trends

Sino-Soviet Bloc economic aid activities in underdeveloped countries during the first 6 months of 1963 continued to reflect a more critical appraisal by both lending and recipient countries -- an appraisal in which the Bloc gave evidence of a more realistic assessment of the politicostrategic returns commensurate with the aid resources committed and some underdeveloped countries exhibited a greater appreciation of the limitations of Bloc economic assistance. While both the level and the more selective pattern of new Bloc aid extensions have reflected this changing assessment, both the Bloc and the underdeveloped countries have been reluctant to relinquish a program which has hitherto netted some advantages to both sides.

Sino-Soviet Bloc new economic aid extensions during this 6-month review period totaled \$101 million* -- the smallest Bloc commitment during any comparable period since 1957. The USSR concluded military agreements with India and Cambodia in the first half of 1963 and possibly also with Algeria, the UAR, and Indonesia.

It is still not possible to state with confidence, however, the extent to which the lag in new extensions reflects (1) a more cautious and selective approach motivated by the apparent feeling in some Bloc circles that economic aid has not been as effective as had earlier been anticipated in furthering Bloc policy objectives, (2) a decision by the USSR to lessen the burden of its aid program in view of domestic economic stringencies and substantial commitments in Cuba and elsewhere, (3) the large backlog of undrawn credits resulting partly from the inability of recipient countries to implement their part of the program, or (4) more limited opportunities in newly emergent countries for large-scale aid agreements of the kind that the Bloc has hitherto entered into.

* All data in this report exclude Cuba and Yugoslavia and thus are not comparable to aggregative figures in previous issues of this series.

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When viewed against (1) some disappointing results of the program in Iraq, Africa, and elsewhere, (2) the simultaneous Bloc commitments in heavy industry, military, space, consumer welfare, and support for less developed Bloc members and Cuba, and (3) bitter Chinese and other Communist denunciations of Khrushchev's coexistence strategy in underdeveloped areas, foreign aid may well have also generated larger political issues within the Bloc than the actual economic costs of the aid program would seem to warrant. Indeed, all these factors probably have contributed to the recent decline in new Bloc aid commitments.

The first half of 1963 was also marked by ambivalent attitudes toward Bloc aid by many of the underdeveloped country recipients. Guinea, Ghana, and Mali, countries on which the Bloc had pinned great hopes for extending its influence in Africa, have been increasingly vocal in expressing their dissatisfaction with the implementation of Bloc aid. Ugly racial incidents involving African students in the USSR, Czechoslovakia, and Bulgaria have also tended to generate hostile, if only transitory, criticism of the Bloc. In Iraq the new regime sought to redress the balance of its Bloc-oriented predecessor by seeking to cancel its contract for Soviet missiles and by canceling two economic aid projects and halting the implementation of three others pending a more thoroughgoing review. However, by the end of the reporting period very few of the academic students had returned. Afghanistan, Indonesia, and the UAR also have indicated a greater desire to establish closer relations with the West as a means of decreasing their dependence on the Bloc.

In response to such mounting problems and disappointments coincident with the implementation of its aid program -- difficulties not peculiar to Bloc programs alone -- the USSR has sought to adopt a more flexible and pragmatic approach in order to facilitate more rapid implementation of its aid projects. In Guinea, after talks reportedly marked by much mutual recrimination and hard bargaining and during which Guinean grievances over the cost and rate of implementation of Soviet projects and the shortcomings of Soviet technicians were aired along with Soviet frustration over Guinea's delay in providing local labor and materials, the USSR agreed to assume full responsibility for the completion of all Soviet aid projects in Guinea -- a step which Moscow had hitherto been reluctant to take. In Ghana, similar efforts by the USSR to facilitate lagging implementation of its aid projects resulted in a Soviet agreement to allocate \$22 million of previously extended developmental credits for the purchase of Soviet commodities, the proceeds of which are to be used exclusively to

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finance the local currency costs of certain Soviet-assisted projects. In response to Indonesian entreaties, the USSR has reportedly agreed to a substantial reduction of the annual payments on Soviet military loans and to a rescheduling of the payments over a longer period.

While the USSR at first seemed eager to salvage what it could of its heavy commitments in Iraq, continued Baghdad repression of Iraqi Communists and an offensive against the Kurdish minority provoked strong Soviet reaction. In an unprecedented threat belying the "disinterested" nature of Soviet aid, Pravda warned that Moscow's patience -- and its aid funds -- were not inexhaustible. Pravda asserted that the rendering of aid to newly independent states did not mean that the USSR had "money to spare" or that such funds could not be used profitably at home. The USSR, therefore, could not remain indifferent to the objectives on which its aid funds were being spent.

While Bloc aid programs were meeting delays and dissatisfaction in some countries, they were apparently making progress in others. Bloc projects in the UAR, particularly the High Dam, were reportedly moving ahead satisfactorily, and a new economic credit of nearly \$45 million was extended by the USSR during the 6-month period. Construction work was stepped up on Bloc projects in the Somali Republic and Yemen, and the number of Soviet technicians in both countries increased substantially. Work appeared to be moving ahead at a faster pace, too, in India and Afghanistan. The USSR widened its commitments to Cambodia by signing agreements for military aid and for a power dam. Brazil finally ratified a number of large, medium-term credits from the European Satellites extended in 1961 and 1962 for machinery and equipment purchases under bilateral trade agreements.

During the past year, Soviet spokesmen have openly expressed the limited foreign aid potential of the USSR and coupled such statements with demands that underdeveloped countries rely more on their own resources or seek more aid from the West and the UN. Moreover, in contrast to the preeminent role that hitherto has been accorded the Bloc aid program, Moscow, perhaps under the urgings of its European Satellites who rely more than the USSR on foreign trade, has tended to place increased emphasis on trade rather than aid as the more decisive factor in securing and maintaining the "economic independence" of new states. There is no firm evidence, however, that the Soviet leadership has revised any of its fundamental assumptions with respect to its policies in underdeveloped areas. Indeed, under the pressures of Chinese criticisms, Pravda on 7 August, in a major exposition of the USSR's aid program, sought to reassert with increased vigor the true militancy of the Soviet doctrine of coexistence and the implicit connection of its trade and aid program -- with which its prestige stems

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irrevocably committed -- with the wider political objectives of the national liberation movement.

Bloc Economic Assistance

Credits and Grants

Bloc economic aid extensions to underdeveloped countries totaled \$101 million during the first half of 1963, the lowest semiannual aid commitment since 1957. The UAR, Syria, and Cambodia were the major recipients of new Bloc aid, bringing the cumulative total of Bloc economic credits extended since the beginning of the program in 1954 to \$4.7 billion. The USSR contributed almost two-thirds of the total of new aid extended in the first 6 months of 1963; the European Satellites contributed almost 20 percent, and Communist China the remainder. More than two-thirds of total Bloc credits extended during this period went to industry, 12 percent to hydroelectric power development, and approximately 3 percent to agriculture.

Drawings in the first half of 1963 were \$209 million, bringing the total cumulative drawings on economic credits to \$1.5 billion. Dissatisfaction on both sides with the slow progress of many Bloc aid projects has led the USSR to intensify its efforts to accelerate the implementation of credits already extended. Recent instances in Guinea and Ghana suggest that even greater emphasis on project implementation may be anticipated in the future.

Technicians and Trainees

Bloc economic technicians employed in underdeveloped countries during the first 6 months of 1963 numbered approximately 11,250, an increase of almost 20 percent over the previous 6-month period. Greater economic aid activity in Algeria, India, Iraq, the Somali Republic, the UAR, and Yemen accounted for about 90 percent of the net increase. Afghanistan, Algeria, Guinea, India, Iraq, the UAR, and Yemen employed almost three-fourths of the total number of Bloc economic technicians. Approximately 15 percent of the total technicians were engaged in medical, education, planning, advisory, and managerial activities not related to economic aid credits -- indicating a significant growth in nonproject technical assistance activities.

During the first 6 months of 1963, approximately 1,400 academic and technical trainees from underdeveloped countries enrolled in Bloc institutions, bringing to approximately 12,000 those who are currently receiving instruction. It is estimated that 18,300 students have undertaken such training since the inception of the Bloc's aid program. Complaints of racial discrimination, political indoctrination, dissatisfaction with academic curricula, and other grievances, however, have

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resulted in some exodus of African students, largely from Bulgaria but also in smaller numbers from other Bloc countries.

Military Assistance

Credits and Grants

New agreements between India and the USSR for the extension of military credits brought the minimum cumulative total of Bloc military assistance to underdeveloped countries to almost \$3 billion by the end of June 1963. New military aid agreements of undetermined value were also reportedly signed with Algeria, Cambodia, Indonesia, and the UAR. Deliveries of military equipment to Indonesia, the UAR, Syria, Algeria, Iraq (before the February coup), and Yemen continued under previous agreements.

During the review period the Bloc sought to resolve some of the problems which have plagued military aid recipients. Bloc countries entered into negotiations with India, Iraq, and the UAR in an attempt to resolve the problems of spares, replacement parts, and maintenance, and the USSR offered some relief to Indonesia's repayment burden by lengthening the repayment period so as to reduce Indonesia's annual repayment obligations.

Technicians and Trainees

Approximately 4,600 Bloc military technicians were assigned to underdeveloped countries during the first half of 1963, an increase of almost 40 percent above the second half of 1962. Greater numbers of technicians were present in Indonesia, Syria, the UAR, and Yemen, whereas the number in Iraq began to decline at the end of the period.

During the first half of 1963, 1,780 nationals from underdeveloped countries enrolled in military training programs in the Bloc. This figure is an increase of more than 25 percent above the previous 6-month period and brings the cumulative total of military trainees to the Bloc to more than 13,000 as of the end of June 1963.

Trade

During the first half of 1963 the Sino-Soviet Bloc continued to expand its trade with the underdeveloped countries with increased stress,

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particularly on the part of the European Satellites, on the close relationship between trade and aid and on the importance of credit extensions as a precondition for any substantial expansion of trade with the area. The underdeveloped countries, while continuing to recognize the advantages in trade with the Bloc, displayed an increasing awareness of some of the difficulties involved in such exchanges.

In 1962, Sino-Soviet Bloc trade turnover with underdeveloped countries rose 11 percent above the 1961 level and amounted to \$2.5 billion. Although this increase was greater than the 3-percent rise noted in 1961, it was still well below the percentage gains of earlier years. The share of the underdeveloped countries in the total trade of the Sino-Soviet Bloc in 1962 continued at its recent level of about 7 percent, while the Bloc's share of the aggregate trade of the underdeveloped countries remained unchanged at about 5 percent. The Bloc, however, continued to account for a heavy share of the trade of certain underdeveloped countries, notably Afghanistan, the UAR, Mali, and Guinea.

Bloc trade with Latin America remained at about the \$300 million level of 1961, whereas Latin America's share in total Bloc trade with underdeveloped areas declined slightly to 12 percent. Asia, which recorded the largest increase in trade with the Bloc, replaced the Middle East as the most important area trading with the Bloc. In 1960, Asia and the Middle East each accounted for about 35 percent of Bloc trade with underdeveloped countries; by the end of 1962 the share of the Middle East in this trade had fallen to 32 percent while Asia's share had risen sharply to 42 percent. Bloc trade with Africa increased slightly, reflecting increased Bloc imports from Ghana.

Latin America

There were few instances of significant Latin American responses to Sino-Soviet Bloc economic overtures during the first half of 1963. The area as a whole maintained only limited economic relations with the Bloc; trade between Latin America (excluding Cuba) and the Bloc amounts to no more than 3 percent of the area's total trade. There are indications, however, that closer ties with the Bloc are developing in some countries.

The most important steps toward closer economic relations with the Bloc were taken by Brazil. In February 1963, Brazil announced ratification of a series of 1961 trade agreements with six European Satellite

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nations. The agreements contain provisions for up to \$180 million in long-term credits as well as calling for greatly increased trade levels. Brazil also signed a new trade pact with the USSR providing for a tripling of trade during the next 3 years, including shipment of large quantities of Soviet oil. As corollaries to these developments, the Brazilian Government set up a coordinating group called COLESTE to promote trade with the Bloc, and a number of trade missions from the Bloc visited the country in an effort -- unsuccessful as of the end of June -- to implement the credits extended.

The Brazilian-Soviet trade agreement does not provide for long-term credits but includes several features considered to be of considerable importance to Brazil: Strict controls are placed on reexport of goods exchanged (a measure designed to protect Brazil's position in the world coffee market), and provision is made for the transfer, with agreement of all parties concerned, of balances accumulated in trade with third countries. If trade goals set forth in the agreement are met, the USSR will provide one-third of Brazil's estimated requirements of crude petroleum and petroleum products by 1965; at present, Soviet oil forms only a small percentage of Brazil's imports.

Bolivia's negotiations with Czechoslovakia for an antimony smelter contract moved somewhat closer to approval with the offer of improved terms by the Czechoslovaks. Final approval of the contract still was being delayed by the Bolivian Government, despite leftist pressures for its acceptance.

In Chile, there are signs of increased interest in trade with the USSR, particularly in regard to copper. Negotiations were commenced for the sale by Chile of up to 21,000 tons of that product.

Uruguay's recurrent foreign exchange problems caused considerable pressure to broaden the country's export market. A number of Bloc proposals for purchases of agricultural products were made, but a sales agreement with East Germany early in the year was the only instance of final acceptance of a proposal by Uruguay.

Bloc efforts in other countries of Latin America (with the exception of Cuba) included visits by commercial missions and various trade proposals. Some sales contracts resulted from these approaches, but significantly closer economic relations between Latin America and the Bloc have not come about.

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The Middle East

The chief developments affecting Bloc relations with the Middle East in the first half of 1963 were the following: the coup in Iraq, which replaced Qasim's regime with an anti-Communist Ba'athi government more critical of Bloc assistance programs; the buildup of Soviet technicians in Yemen, associated with UAR and Soviet military support of the Yemeni Government; and an increase in economic ties with and probably military assistance to the UAR from the Bloc.

The strong Bloc position in Iraq deteriorated sharply following the Ba'ath-dominated coup of 8 February 1963. The severe repression of Iraqi Communists by the new regime was followed by a sharply antagonistic reaction from the USSR and the European Satellites and by counter-propaganda from the Iraqi side. A general review of development plans and of Bloc-aided projects was initiated by the government; this review has yet to be completed. A number of Bloc industrial projects on which little work had been done have been canceled, whereas others well underway at the time of the review will probably be completed. Iraqi authorities indicated their interest in developing alternative sources of supply for military equipment but cannot quickly eliminate their present dependence on Soviet supplies; deliveries of some conventional military items from the USSR continued, but abrogation of a major contract for surface-to-air missiles was requested by Iraq. The number of Soviet technicians in Iraq and Iraqi students in the Bloc will have been substantially reduced by mid-summer 1963. On 9 June 1963 the Iraqi Government decreed that all academic students studying in the Bloc return to Iraq.

In Yemen the number of Soviet technicians more than doubled, rising to about 1,000: somewhat less than half were working on a military airfield north of San'a; some were serving as instructors at the military academy in Ta'izz, and others providing civilian services in the port of Hudaydah and elsewhere. Under a military assistance agreement concluded with Yemen in November 1962, the USSR reportedly provided a variety of small arms, anti-aircraft guns, grenades and mines, jeeps, trucks, and ambulances. Meanwhile, economic aid was under discussion with several Bloc countries, but only a Chinese Communist grant of wheat, valued at \$200,000, had been extended by the end of June.

The UAR obtained a new \$44.4 million credit from the USSR in June, to be used for unspecified industrial projects. In January a protocol covering final blueprints and specifications for the Aswan High Dam was concluded, and work on the dam is proceeding well. The extent of new military aid from the USSR is not known, but reports on items connected with development of surface-to-air missiles indicate rapid progress toward an air defense system.

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Elsewhere in the Near East, the USSR continued its goodwill campaign in Iran, and a Soviet delegation arrived in Teheran late in June to discuss specific proposals for joint economic cooperation.* In Syria, where a Ba'ath Party coup (like that in Iraq) occurred during March, the chief new development was the extension of a \$16 million economic credit by Communist China; other Bloc activities, including implementation of existing economic and military aid programs, proceeded without incident, and Syrian-Bloc trade rose substantially in 1962.

Africa

There were no major changes in the level or pattern of Bloc activities in Africa during the first half of 1963. The USSR undertook steps to implement more rapidly its aid program in Ghana and Guinea and initiated a large-scale military training program for Algeria. There was an increase in Bloc diplomatic representation, and the first Soviet ambassadors to Senegal and Burundi were accredited. Hungary opened the first Bloc mission in Dahomey, and the Chinese Communists opened the first Bloc mission in Uganda.

The Bloc continued to place increasing emphasis on the stimulation and support of nationalist forces in the southern third of Africa. Here the USSR and Communist China continued to support the same liberation groups, and both called upon independent Afro-Asian states to give military and financial aid to these groups.

The Bloc also made some progress in extending its air operations in Africa. An agreement with Tunisia in February gave Czechoslovak Airlines (CSA) the right to fly to Tunis. Mid-March talks in Prague resulted in the initialing by a Sudanese delegation of an air transport agreement with CSA. The agreement provides rights between Prague and Khartoum, but the Sudanese have indicated that no onward rights are to be granted. The Somali Cabinet decided to grant landing rights to Aeroflot in Somali, but Ethiopia denied the Soviet request for landing and overflight rights. The USSR attempted to obtain rights across central Africa in order to be able to fly the circular route

* On 27 July 1963 an agreement was concluded for joint development of the Aras River in northwestern Iran. The USSR extended a credit of \$38.8 million to cover Iran's share of the foreign exchange costs. Assistance also will be provided to increase the productivity of Iran's sturgeon fisheries in the Caspian Sea and for the construction of 11 grain silos.

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Moscow-Cairo-Khartoum-Accra-Conakry-Rabat-Moscow but apparently did not obtain the necessary overflight rights from Chad and Nigeria. Air Ghana service to Moscow began in February but was terminated after two flights. Aeroflot obtained and then apparently lost Guinean permission to use Conakry as a stopover on flights to Havana, but it did acquire the right to use Ouargla in Algeria for flights to Cuba.

Bloc prestige in Africa was adversely affected in February when Bulgarian militia broke up a demonstration of about 200 African students in Sofia. The students had been prohibited by the Bulgarian Government from forming a union that would represent them in efforts to alleviate some of their grievances. Approximately 150 African students left Bulgaria as a result of the incident.

Limited successes were achieved by some Bloc countries at major Afro-Asian conferences in early 1963. The Afro-Asian Peoples' Solidarity Organization (AAPSO) held its third conference at Moshi, Tanganyika, in February. Here the USSR and Communist China helped to give the conference a distinctly anti-Western character. The Chinese had relative success in posing as "non-white" champions of African liberation struggles. Two months later, the conference of Afro-Asian Journalists, from which the Chinese Communists succeeded in having the USSR excluded, benefited from contacts built up at Moshi and attracted delegates from more than 20 African territories to Djakarta. Many of these delegates, who had also attended the AAPSO conference, went on to visit Communist China.

There were few new Bloc credits to Africa in the first half of 1963.* The first long-term development credit from a Bloc country to Algeria was a \$6 million Bulgarian credit for a textile plant, tannery, and electric motor factory. Under an agreement concluded in February, Bulgaria also extended a credit of \$1.5 million to Tunisia for the construction of a sports center.

Bloc activity continued at a relatively low level in Ethiopia but greatly increased in the Somali Republic. The Somalis resisted Bloc overtures only in the military field, and the USSR moved rapidly ahead with economic aid, trade promotion efforts, and a relatively massive

* While on a trip to the USSR in June, Senegal's Secretary of State for Planning and Development signed an agreement that calls for Soviet aid in expanding the production of an agricultural project which currently consists of 6,000 hectares. Soviet assistance will be provided under the terms of a general economic and technical assistance agreement signed in June 1962. Whether or not financial assistance has been extended is not known, but it is estimated that the total cost of the project is about \$16 million.

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scholarship program. Communist China entered into active competition for Somali favor during the reporting period.

European Satellite activity, particularly by Poland and Bulgaria, represented the greatest Bloc initiatives in the field of economic assistance to Algeria. In addition to its development credit, Bulgaria also signed technical cooperation and trade and payments agreements. Poland signed trade, economic, and scientific and technical cooperation agreements with that country. The USSR has been the most active in military aid and is carrying out de-mining operations on Algeria's eastern and western borders. More than 350 Algerians went to the USSR for military training.

Despite the banning of the Tunisian Communist Party and its publications in January, the Bloc moved ahead with its economic aid program in Tunisia. Besides extending a credit for the sports center, Bulgaria renewed its trade agreement for 1963. Poland completed a spinning mill and agreed to undertake the study and financing of facilities for cooperatives.

Ghana postponed indefinitely the projected establishment of a trade mission in East Germany and continued its review of agreements with the Bloc. Ghana sought to revise its trade and payments agreements with Bloc countries to permit the periodic settlement of bilateral accounts. Complaints about the quality of Bloc equipment increased, and work on Bloc projects proceeded slowly. Provisions of previous credit extensions were revised in order to facilitate implementation of Soviet projects. A protocol signed in March earmarked unused portions of previously extended credits for the import of Soviet commodities valued at \$22.2 million. The local currency generated from the sale of these commodities will be used for the domestic costs of certain Soviet-assisted projects in Ghana.

Guinea's relations with Bloc countries continued at a reduced level. Only Communist China increased its activity as it began to implement its aid program. Economic relations with the Bloc approached a critical point as Guinea sought to make the Bloc implement its aid program at a faster pace while the Bloc tried to enforce overdue payments on trade accounts. In June an aid protocol provided for the creation of a Soviet building organization in Guinea to be fully responsible for the completion of all Soviet aid projects.

Mali's financial situation deteriorated as debts to the Bloc became due in increasing amounts; the country defaulted on payments, and the USSR apparently agreed to ease some of the terms. The Bloc retained its dominant position in Mali's aviation, but Air Mali continued to have financial difficulties. The Bloc's major aid projects made little

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progress, and no new ones were announced. Some of the Bloc-supported economic ventures have proved disappointing. Meanwhile, however, the extensive Malian-Bloc exchange of delegations continued, President Keita received the Lenin Peace Prize, and Malian information media continued to favor the Bloc.

In East Africa, Bloc efforts consisted primarily of diplomatic, cultural, and trade relations. The only significant commercial activity was the Chinese purchase of Tanganyikan and Ugandan cotton, which caused a price rise in both countries' markets. Uganda and Kenya sent commercial missions to the Bloc in quest of markets, and the Bloc can expand its presence in the East African economy by purchasing those agricultural products on which export earnings are dependent and for which the world market is limited.

Asia

The most noteworthy developments in Southeast Asia during the first half of 1963 consisted of the first acceptance by Cambodia of military equipment from the USSR, Burma's purchase of additional tractors from the USSR and Czechoslovakia, and the Soviet accommodation on repayments on outstanding debts owed by Indonesia. In South Asia, significant developments included (1) a shift of government in Afghanistan which appeared favorable to the West and a renewal of economic relations with Pakistan when the latter opened its borders once again for transit to Afghanistan and (2) Soviet deliveries of fighter planes to India, followed by offers of broader military aid and the conclusion of a trade agreement calling for expanded commerce between the USSR and India.

In Indonesia the Soviet Bloc continued its policy of supporting President Sukarno and received from him in turn support for a number of Bloc positions in the international field. However, Soviet leverage in Indonesia decreased somewhat as a result of the adoption by the Indonesian Government in May of an economic stabilization program along Western lines and predicated upon substantial new economic aid from the West. The USSR, after prolonged negotiations, agreed to reduce the annual payments on Indonesian military indebtedness, a concession the United States had stipulated as a precondition to Western aid. At the same time, the way was prepared for more rapid implementation of Soviet economic aid commitments. The only new Bloc credit was a Czechoslovak loan of \$5.6 million for the purchase of trucks.

Prince Sihanouk continued to emphasize the special position of Communist China as a friend and protector of Cambodia. Sihanouk's visit to Communist China in February and Liu Shao-chi's return visit to Cambodia in May were occasions for a reaffirmation of mutual support, although no new economic credits were forthcoming from the Chinese. The USSR extended a credit of \$12.2 million to Cambodia for

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the construction of a dam on the Kamchay River. The USSR also agreed to supply four MIG aircraft, 24 37-mm antiaircraft guns, and some radio equipment -- the first penetration by the Bloc into the military aid field in Cambodia.

The major developments in Burmese-Bloc relations during the first half of 1963 were the Burmese purchase in January of an additional 500 tractors from Czechoslovakia, bringing the total number purchased from that Bloc country to 2,000, and the purchase of 1,000 tractors from the USSR in March. The tractors from the USSR were purchased under a \$2.6 million credit to be repaid over 5 years at 2.5 percent interest. The Bloc will thus play a significant role in the development of the agricultural sector in Burma.

Prime Minister Daud of Afghanistan, who had supported the development of Afghan relations with the USSR, resigned in March and was replaced by a more pro-Western regime. In May, Afghan-Pakistan diplomatic relations were restored, and the transit route through Pakistan was reopened. The latter development provided a significant assist for the Afghan economy and reduced its dependence on the Soviet transit route. No change in the Soviet military program was observed, but the new regime has reportedly shown interest in obtaining some military supplies and training in the West. Weekly air service between Prague and Kabul was inaugurated by the Czechoslovak Airlines, and the Soviet-built air terminal at Kabul was opened.

Soviet willingness to provide military aid to India, thrown into question in late 1962 after the Chinese Communist attack from the Tibetan border, was reaffirmed with the delivery of the MIG-21's previously promised. Further agreements were signed during the period under review between the USSR and India -- for additional aircraft. In June the USSR and Czechoslovakia offered a wide range of military equipment, and an Indian negotiating mission left for Moscow in July. There were only minor additions in 1963 to the substantial Bloc economic aid program in India, but new agreements with the USSR project a continuing increase in Indian-Soviet trade and in cultural exchanges. Implementation of existing projects progressed without difficulties.

Czechoslovakia extended a \$5.6 million credit to Indonesia in June for the purchase of trucks.

In other parts of South Asia, Bloc activities in Ceylon and Nepal continued at a moderate level but without any significant new developments. Half of the original 16 Soviet projects in Ceylon have been dropped, owing largely to poor Ceylonese planning. Construction was begun on the Soviet iron and steel mill, and several Czechoslovak

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projects were close to completion. Poland extended a credit of \$6.4 million to Ceylon for the purchase of industrial equipment. Considerable progress was made on the Soviet sugar and cigaret factories and the hydroelectric project in Nepal, and the Chinese Communists completed a survey of the road from Katmandu to the Tibetan border. Communist China's approaches to Pakistan included a border agreement (concluded in December 1962 and signed in March 1963), discussion of a civil air agreement, and a trade agreement which added little to existing trade.

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